



# Weekly Market Commentary



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## Trick or Treat

### Jeffrey Kleintop, CFA

Chief Market Strategist  
LPL Financial

#### Highlights

Investors were treated to powerful gains last week as European policymakers crafted a deal to avoid a 2008-like financial crisis and economic and profit reports in the United States reflected solid growth.

We believe last week's European rescue deal is more treat than trick, but the devil is in the details. Over the long-term, concerns remain about the tricky outlook for economic growth in Europe and the ability of some peripheral countries to meet budget targets.

While the stock market is likely to hang on to the powerful gains made in October, there are still a few of scares coming in November that may spook the markets and reintroduce some familiar volatility.

Was last week's market rally a Halloween trick or a treat for investors? European leaders announced a deal last week that produced a sigh of relief felt around the world as markets welcomed the news of a breakthrough in what had been the biggest threat to the global economy and markets since the 2008 financial crisis.

In general, markets last week provided a treat to investors:

- The S&P 500 climbed 4% putting the gain for the month of October on track to be the best month since October 1974 [Table 1].
- Stocks rose sharply in Europe and Asia, led by the banks.
- High Yield corporate bonds rose 2%.
- Commodities surged with oil rising 7% and copper surging 15%.
- Reflecting a mostly positive outlook for growth, the yield on the 10-year Treasury note rose 12 basis points and traded as high as 2.40% for the first time since early August.

We believe the deal is more treat than trick, but the devil is in the details—many of which remain undisclosed in the statement released by European policymakers last week. There are three broad components of the rescue package:

- Greece's debt burden is reduced by a 50% "haircut" on Greek bonds.
- European banks will be required to raise 106 billion euros to temporarily maintain a higher buffer against additional losses on their bond holdings.
- The rescue fund will provide guarantees against the first 20–25% of losses on about one trillion euros of European government debt.

Over the long-term, concerns remain about the tricky outlook for economic growth in Europe and the ability of some peripheral countries to meet budget targets. Reflecting these lingering concerns and fearing a trick, many investors in European government bonds sold their positions pushing Italian and Spanish bond yields higher for the week. Europe appears headed for a recession as seen in last week's data included weak readings on employment, economic growth (as measured by GDP), and heavy truck sales in Europe.

The long-term success of the European rescue is dependent upon the members of the Eurozone taking additional steps to adhere to their plans for achieving financial stability and deficit reduction. Skepticism lingers



## 1 Ten Best Months for S&P 500 in Past 50 Years

Month	S&P 500 Price Gain %
October 1974	16.3
<b>October 2011*</b>	<b>13.6</b>
January 1987	13.2
January 1975	12.3
August 1982	11.6
December 1991	11.2
November 1982	11.0
August 1984	10.6
November 1980	10.2
November 1962	10.2

\* through October 28, 2011

Source: LPL Financial, Bloomberg data 10/28/11

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

that some nations will successfully hit the targets they have set especially in light of the recession that many European countries are likely to experience next year.

Despite the long-term concerns, the stock market may hang on to the gains it has achieved in the month of October which were supported by other positive news that continued last week:

- The string of solid and better-than-expected economic data in recent weeks was capped by last week's third quarter GDP coming in at 2.5% and a new all-time high in real GDP. (See this week's *Weekly Economic Commentary* for details).
- Strong and better-than-expected corporate earnings reports are on track for a 16.3% year-over-year increase with revenues up 10%. Of the 315 companies in the S&P 500 that have reported earnings to date for the third quarter, 71% have reported earnings above analyst expectations.
- Additional policy actions outside of Europe also helped lift markets. Japan boosted economic stimulus, Turkey cut reserve requirements, and China pushed lending support for small firms as they prepare to reverse efforts undertaken in the past couple of years to tighten credit.

We expect these trends to continue into November. As November gets underway, this week there are several potentially positive drivers for the markets:

- Important economic data is due to be released including the October readings on jobs (employment report from the Department of Labor), business sentiment (ISM), and consumer spending (vehicle sales and retail chain-store sales). This data should be solid—certainly relative to investor and consumer confidence readings, but it is getting harder to surprise to the upside after so many weeks. (See this week's *Weekly Economic Commentary* for details).
- On November 3, the European Central Bank (ECB) is set to meet. The next step in a successful plan to stabilize Europe is for the European Central Bank to cut rates soon to promote growth and lending and reverse the two rate hikes they made earlier this year. A rate cut by new ECB head Mario Draghi would be welcomed by markets. In addition, the Reserve Bank of Australia, Australia's central bank, may cut rates this week.
- Small components of President Obama's jobs bill with a higher likelihood of passing Congress may be proposed this week.

However, there are some potential negatives on the calendar for November.

- The government is funded through a continuing resolution that runs out November 18 and will result in a government shutdown if not extended.
- The November 23 deadline is looming for the super-committee to vote on a plan with \$1.5 trillion in deficit reduction.

So there are still a few scares coming in November that may spook the markets and reintroduce some familiar volatility.



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The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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